

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15

USIA-15 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04

OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 /132 W

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R 300328Z APR 76

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 1302

AMEMBASSY CANBERRA

USDEL MTN GENEVA

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 WELLINGTON 1618

E.O. 11652: N/A

TAGS: EGEN, EFIN, NZ

SUBJECT: MINI-BUDGET NO. 2 PORTENDS MORE ECONOMIC RESTRAINTS

### 1. SUMMARY

GNZ'S LATEST ECONOMIC PACKAGE TRIMMED AN ADDITIONAL NUMBER OF GOVERNMENT EXPENDITURES AND SHIFTED MORE CHARGES TO THE CONSUMER. THE PRICE OF SUCH BASIC CONSUMER ITEMS AS BUTTER AND EGGS TOOK A SIZEABLE JUMP. OTHER MEASURES ANNOUNCED INCLUDED RESTRAINTS ON EXPENDITURES FOR EDUCATION, POWER STATION CONSTRUCTION, REGIONAL DEVELOPMENT, CIVIL SERVICE HIRING AND POST OFFICE SERVICES. THERE WILL ALSO BE SOME CUTBACKS IN RAILROAD AND RADIO SERVICES. FURTHER MEASURES WILL BE ANNOUNCED IN THE NEXT ANNUAL BUDGET. END SUMMARY.

2. LATE ON APRIL 28 THE DEPUTY FINANCE MINISTER, MR. GEORGE GAIR (IN THE ABSENCE OF THE MINISTER OF FINANCE - ROBERT MULDOON WHO IS IN THE PEOPLES REPUBLIC OF CHINA ON A STATE VISIT WEARING HIS OTHER HAT - PRIME MINISTER OF NEW ZEALAND - MADE PUBLIC THE SECOND MINI-BUDGET. THIS FOLLOWS WEEKS OF INTENSIVE WORK BY A SPECIAL CABINET SUB-COMMITTEE REVIEWING THE

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EXPENDITURE BUDGETS OF ALL GOVERNMENT DEPARTMENTS WITH

THE AIM OF CUTTING OVERALL GOVERNMENT SPENDING. THE NATIONAL PARTY INHERITED A BUDGET DEFICIT WHICH WAS ESTIMATED TO RANGE SOMEWHERE NEAR \$1.2 BILLION. WITH THE MEASURES ANNOUNCED, IT COULD STILL BE NEAR \$1 BILLION. AT A PRESS CONFERENCE MR. GAIR POINTED OUT THAT FORECASTS SHOWED THAT IF GOVERNMENT SPENDING HAD BEEN ALLOWED TO CONTINUE UNCHECKED THE DEFICIT WOULD BE "INTOLERABLY LARGE, HIGHLY INFLATIONARY AND HAVE UNDERMINED THE CONFIDENCE OF OVERSEAL LENDERS IN OUR FUTURE."

3. THE MINISTER ONLY GAVE THE BROAD OUTLINES OF THE STEPS THE GOVERNMENT IS TAKING TO CUT SPENDING. MORE DETAILS ON CUTS WILL BE ANNOUNCED BY INDIVIDUAL MINISTERS CONCERNED WITH DIFFERENT DEPARTMENTS. THE FULL EXTENT OF THE CUTBACKS RESULTING FROM THE GOVERNMENT'S REVIEW WILL NOT BE AVAILABLE UNTIL COMPLETION OF THE BUDGET WHICH IT IS EXPECTED WILL BE ANNOUNCED AT THE END OF JULY (CONTRARY TO LABOUR GOVERNMENT PRACTICE OF ANNOUNCING THE BUDGET AS EARLY AS MAY).

4. IN ADDITION TO THE SPECIFIC MEASURES ALREADY ANNOUNCED IN THE EARLIER MINI-BUDGET, THE GOVERNMENT HAS ALSO DECIDED TO RESTRAIN EXPENDITURES ON CAPITAL WORKS AND ADVANCES MADE TO THE STATE CORPORATIONS, INCLUDING BROADCASTING. THESE EXPENDITURE RESTRAINTS WILL COME IN THE FORM OF DELAYS IN THE START OF MANY NEW PROJECTS AND A SLOWING DOWN OF SOME MAJOR PROJECTS AT PRESENT UNDERWAY.

5. SPECIFIC MEASURES ANNOUNCED ON APRIL 28 INCLUDE:

(A) REMOVAL OF THE SUBSIDY ON (1) BUTTER BY RAISING THE PRICE BY 7 CENTS A POUND FOR AN ANNUAL SAVING OF \$5.8 MILLION, AND (2) ON EGGS BY INCREASING THE PRICE PER DOZEN BY 5 CENTS, SAVING \$1.6 MILLION;

(B) CLOSING OF FOUR BRANCH RAILROAD LINES (SAVING \$500,000) AND BY JUNE 1976 A FURTHER INCREASE IN RAILROAD FREIGHT RATES (INCLUDING AS WELL A RESTRUCTURING OF THE FREIGHT TARIFF);

(C) LIMITING EXPENDITURES ON ADMINISTRATION (INCLUDING UNCLASSIFIED

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TEACHING STAFF), OPERATIONS, AND MAINTENANCE, INCREASING SOME CHARGES AND DELAYING OF NEW STARTS IN EDUCATION FACILITIES (SAVING ABOUT \$8 MILLION);

(D) INCREASING CHARGES FOR A NUMBER OF AGRICULTURAL SERVICES INCLUDING MEAT INSPECTION.

(E) HOLDING FUEL EXPENDITURES FOR POWER STATIONS TO

\$30 MILLION, (A CUT OF SOME \$11 MILLION BELOW PRESENT ESTIMATES).&THIS COULD MEAN UP TO A 7 PER CENT REDUCTION IN ELECTRICITY CONSUMPTION AND EVEN POSSIBLY SOME FORM OF POWER RATIONING;

(F) REDUCING BY \$1 MILLION FUNDS FOR REGIONAL DEVELOPMENT PROGRAMS;

(G) FREEZING THE OVERALL LEVEL OF THE CIVIL SERVICE;

(H) EXTENDING THE COMPLETION DATES FOR SEVERAL OF THE CURRENT MAJOR PROJECTS. FOR EXAMPLE WORK ON THE TONGARIRO POWER PROJECT WILL BE SET BACK 10 TO 12 MONTHS. THE UPPER WAITAKI PROJECT WILL BE SLOWED BY 3 TO 9 MONTHS, HUNTLY BY 3 MONTHS AND MARSDEN BY 9 MONTHS. (MR. GAIR SAID THE GOVERNMENT HOPED THESE DELAYS WOULD NOT RESULT IN FUTURE POWER CUTS). ALSO THERE WILL BE CUTBACKS IN CONSTRUCTION OF PUBLIC BUILDINGS (SAVING ABOUT \$4 MILLION), WATER AND SOIL CONSERVATION (SAVING \$3 MILLION) AND PUBLIC WORKS ADMINISTRATION (\$7.7 MILLION);

(I) THE EXTERNAL SERVICE OF RADIO NEW ZEALAND WILL BE CLOSED.

IN ADDITION TO THE ABOVE A WIDE RANGE OF POSTAL SERVICES HAVE BEEN ADJUSTED TO ACHIEVE ECONOMIES. (MORE DETAILS ARE TO BE AFNOUNCED LATER.) SUPPORT OF THE ARTS, RECREATION AND SPORT, SPECIAL ASSISTANCE TO LOCAL AUTHORITIES AND IMMIGRATION WILL SUFFER CUT BACKS. IT IS HOPED THAT TOTAL SAVINGS THIS FINANCIAL YEAR FROM THE VARIOUS MEASURES WILL REACH \$280 MILLION.

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FM AMEMBASSY WELLINGTON  
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6. COMMENT: THIS LATEST GNZ ANNOUNCEMENT DOES NOT CONTAIN ANY SURPRISES. MANY OF THE MAIN ELEMENTS HAVE BEEN DISCUSSED OR ALLUDED TO FOR THE PAST SEVERAL WEEKS. REDUCTION IN A NUMBER OF GOVERNMENT CONSUMER SUBSIDIES IS ALREADY A FACT. THERE WERE WARNINGS THERE WOULD BE MORE. IT IS CLEAR THE NATIONAL GOVERNMENT IS INTENT TO ELIMINATE SUBSIDIES AS AN UNDESIRABLE DISTORTION OF THE ECONOMY. "THE CONSUMER PAYS" IS THE MOTTO HEARD FREQUENTLY. SIGNIFICANT RESTRAINTS ON CAPITAL EXPENDITURES, INCLUDING THE SLOW-DOWN IN IMPORTANT PROJECTS UNDERWAY, THOUGH ALREADY HINTED AT, CONSTITUTE A NEW PHASE. IT REVEALS THE SERIOUSNESS WITH WHICH THE GOVERNMENT VIEWS THE BUDGETARY (AND FOREIGN EXCHANGE) DEFICIT AND ITS RESOLVE TO REVERSE THE PRESENT TREND. OBVIOUSLY THE EFFECT OF A NUMBER OF THESE CUTBACKS WILL NOT BE REFLECTED IMMEDIATELY IN REDUCED GOVERNMENT EXPENDITURES. THE DECISION TO INSTITUTE SLOW-DOWNS, ESPECIALLY IN POWER GENERATION PROJECTS, MUST BE REGARDED AS A CALCULATED RISK WHICH LATER COULD COME BACK TO PLAGUE THE GOVERNMENT IF WATER LEVELS IN EXISTING HYDRO-ELECTRIC FACILITIES RUN LOW - AS THEY HAVE IN THE RECENT PAST - AND THE GOVERNMENT IS FACED WITH THE CHOICE OF IMPORTING LARGER QUANTITIES OF FUEL FOR POWER GENERATION OR  
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RESORTING TO STRINGENT RATIONING. THE CIVIL SERVICE HAS BEEN GROWING IN RECENT YEARS AT A CONSIDERABLE PACE. LAST YEAR SOME 11,000 NEW GOVERNMENT EMPLOYEES WERE PLACED ON THE PAYROLL. GOVERNMENT NOW EMPLOYS SNUING INDICATIONS THAT THE GOVERNMENT STILL INTENDS TO HOLD THE LINE AGAINST ANY SIZEABLE INCREASES - LABOR IS BECOMING NOTICEABLY MORE RESTIVE. SOME WORK STOPPAGES HAVE BEEN ANNOUNCED WHICH ARE RELATED TO THE LATEST GOVERNMENT CUT BACKS. FEDERATION OF LABOUR PRESIDENT SIR TOM SKINNER HAS FELT THE NEED TO COME OUT WITH A STRONG DENIAL THAT THE F.O.L. IS "PUSSYFOOTING" IN ITS DEALINGS WITH THE GOVERNMENT. IT COULD WELL BE THAT BY BUDGET TIME, AT THE END OF JULY, THE GOVERNMENT WILL BE FACED WITH CONSIDERABLE RESISTANCE FROM DIFFERENT GROUPS TO MORE SIZEABLE CUTS.  
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